

97-84095-2

Warburg, Paul M.

Government and business

[Chicago, Ill.]

[1917]

97-84095-2
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OCLC: 36685910 Rec stat: n
Entered: 19970407 Replaced: 19970407 Used: 19970407
Type: a ELvl: K Srce: d Audn: Ctrl: Lang: eng
BLvl: m Form: a Conf: 0 Biog: MRec: Ctry: ilu
Cont: Fict: 0 Indx: 0
Ills: Fest: 0 DtSt: s Dates: 1917, +
Desc: a
1 040 PR1 v c PR1 +
2 007 h v b d v d a v e f v f a --- v g b v h a v i c v j p +
3 007 h v b d v d a v e f v f a --- v g b v h a v i a v j p +
4 007 h v b d v d a v e f v f a --- v g b v h a v i b v j p +
5 090 v b +
6 049 ZCUA +
7 100 1 Warburg, Paul M. v q (Paul Moritz), v d 1868-1932. +
8 245 10 Government and business v h [microform] : v b address / v c by Paul
M. Warburg before the Commercial Club of Chicago, April 7, 1917. +
9 260 [Chicago, Ill. : v b Commercial Club of Chicago, v c 1917] +
10 300 29 p. ; v c 23 cm. +
11 500 Cover title. +

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TECHNICAL MICROFORM DATA

FILM SIZE: 35mm

REDUCTION RATIO: 11:1

IMAGE PLACEMENT: IA (IIA) IB IIB

DATE FILMED: 5/22/97

INITIALS: TLM

TRACKING # :

20924

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APR 18 1917

Government and Business

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ADDRESS

BY

HON. PAUL M. WARBURG

BEFORE THE

COMMERCIAL CLUB OF CHICAGO

APRIL 7, 1917

May 21, 1917 AET

Government and Business

It is about twenty-four years since I came to the United States for the first time, and, taking things in the sequence of their true importance, I came to see Chicago first and New York afterwards,—incidentally coming from Japan. I have since been a frequent visitor to this wonderful city, and every time I have come back I have been impressed anew with its continued growth as one of our most important centers of commerce and as a leader in civic thought. One of my visits here stands out with particular clearness in my memory. That is when I came here in April, 1911, delegated by a convention of Chambers of Commerce and Boards of Trade, in order to assist in the formation of a business men's league for the promotion of financial reform, a movement at that time still in its swaddling clothes.

This work was taken up by a group of your leading citizens with the intelligence and energy characteristic of your city, and if our country was able to pass through the last three years without any financial disturbance, strong enough to meet the phenomenal requirements made upon us, and if today we find ourselves fully prepared to carry the still greater burdens that public interest may require us to shoulder, these men may feel that they have done their full share in bringing about this happy result. For without the comprehensive campaign of education preceding the enactment of the Federal Reserve Act so

far-reaching a reform could not have been carried out in proper time. I am particularly grateful for being accorded this privilege of addressing the business men of Chicago, because it gives me a welcome opportunity of paying tribute to the part played by your citizens in this epoch-making work of monetary reform.

Those of us who know the Bible remember the chapter on the Tower of Babel. The story of the world's first skyscraper is the parable of the conceit and downfall of mankind. Confident in his ability to overcome any difficulty, man undertook to build a tower that would reach to the skies—and the world fell into general confusion. That is the world's condition today.

And those of us who know the old Greek tragedies can not help feeling that three hundred million people are drawn into this world contest by forces stronger than they; a power akin to the Fate that the Greeks held to be superior even to the gods; the cumulative effects and consequences of dynastic and racial feuds of generations and of inevitable economic developments.

The great calamity that has befallen Europe would, indeed, awaken in us nothing but a feeling of utter despair of the ultimate ability of the human race to rise from its aboriginal level, were it not for the confidence that out of this struggle there will come to the world a greater liberty of man and a loftier understanding of human rights; and furthermore for the redeeming thought that it is the profound belief in the sacred mission of their respective races that makes gentle and peaceful individuals willing, for the greater glory and advantage of their tribes, to

endure and to inflict untold hardships and cruel suffering.

RACE THOUGHT FOREIGN TO OUR COUNTRY

In the latter respect our own problems and ideals differ from those of Europe. The race thought is foreign to our country as a motive for making war. The United States is not a one-race country; all the tribes of the world have brought to these shores that which is most characteristic in their strain, and merged it into the composite type of the citizen of the new world. When the United States goes to war, it can never be a race war; it must be a war for a principle, for liberty or for human rights. It can never be a war by a race against a race; but a war by people holding to one principle against people holding to another. Our greatest contribution to the world's development is that we are giving the living proof that common aims and ideals can be stronger than racial differences. When the die is cast there can be only one duty for any citizen, and that is to stand loyally by the flag of his country. But that duty is doubly strong with us, where any hesitation in that respect would shake the fundamental thought of the Union—which is: that its citizens must shake off the smaller racial or sectional thought and subordinate it to the larger duty of loyalty and allegiance to the principles of liberty, justice and equality upon which the United States is founded. That does not mean that we should cease to love the people who were near and dear to us in the old countries where our ancestors', or even our own cradle stood, or that we should forget that every one of these old races has given us

some great contribution towards the higher development of our own country. During our Civil War many a brave man continued to love his brother, even though he found himself forced to fight him on the field of battle. But this tragic conflict of affections could not shake his loyalty to the cause he had espoused. And so it must and will be with us. When our country goes to war it has a right to expect and demand of all its citizens a willingness to serve and to suffer and to die. No matter what this may entail for any of us, about our whole-hearted and unquestioning allegiance to our flag, about our unhesitating readiness to stand by our President and to do our duty, there can be no possible doubt.

FINANCIAL SERVICE

This duty may be performed in many ways. It may be personal service with the colors. It may be organizing and placing at the disposal of the Government the various industries of the country, or the investors' prompt response to offerings of loans issued in the interest of the cause.

Under the particular circumstances in which we enter the war the financial aid that our country will be able to render will be one of our most important contributions, and I have no doubt that in whatever way our Government will finally decide to appeal to the American investor he will respond with an alacrity and in a spirit that will astound the world.

It is a profound satisfaction to all of us to know that never before was this country financially as strong and as well prepared as it is today. During the last three years our gold holdings have increased

by 57 per cent from \$1,900,000,000 to about \$3,000,000,000. In addition, as you are well aware, we have improved our position as against other nations by repurchasing our own securities and making foreign loans to an amount approaching \$5,000,000,000.

WHAT BANKING REFORM HAS DONE

Moreover, by the establishment of our Federal Reserve System we have organized this enormous strength. We have brought into effective coördination a large portion of the country's banking reserves. We have regulated and brought about a general understanding of modern methods of rediscounting. We have created a new wide market for bankers' acceptances, so that our member banks now have an easy means of recourse to the Federal Reserve Banks in case they wish to replenish their reserves.

We have established fiscal agency relations with the Government and perfected an instrument which may prove of great value in placing future issues of our Government securities. Not so much by investing their own funds, except when dealing with short maturities, but by acting as a medium of distribution, the Federal Reserve Banks may play a most important part in facilitating the participation of all sections of the country in receiving the payments for subscriptions and adjusting any drastic dislocation of funds that might arise through heavy payments by the banks to the Treasury.

We have available a vast supply of notes of undoubted solidity ready to be issued whenever there may be a demand; and, through the inter-district gold clearing fund, we have established machinery for the freest exchange of balances between

the various parts of the country.* Not by any stretch of imagination could we perceive the possibility of a gold premium between the various American centers or a currency famine as in years gone by. About our power to take care of ourselves there can be no doubt. But in view of the unparalleled demands that may be made upon us both during the war and after the conclusion of peace demands which it may be our highest national interest and duty to satisfy—we should not neglect to perfect our financial machinery to such a degree as to give it the greatest possible strength.

AMENDING THE RESERVE ACT

For this reason the Federal Reserve Board has again recommended to Congress amendments having for their object a still further concentration in the Federal Reserve Banks of gold held in scattered bank reserves and a more liberal substitution of Federal Reserve notes for our present rigid 100 per cent gold certificate circulation.

One billion dollars, one-third of the gold holding of the United States, is at present "unaccounted for"; you and I carry it in our pockets, it is in the tills of the baker, the grocer and dry goods store. We all would just as leave take Federal Reserve notes—our Government's absolute obligation secured at present by practically 100 per cent of gold and all the assets of the Federal Reserve Banks. It is as apparent that it would increase our strength enormously if we could add to our organized reserves a

*Instead of shipping currency from one district to another we have transferred ownership of gold by book entries averaging about one billion dollars a month for the more recent period. Our clearing per day amounts now to about \$100,000,000.

substantial portion of this wasted gold, as it is obvious that it would be nothing short of a crime wilfully to withhold from our country at this time so vital an addition to its power of offense and defense.

Unfortunately, in the general tie-up of all legislative work at the end of the preceding session, Congress was unable to pass the desired legislation. It is most essential for the best interest of the country that prompt action be taken by the present Congress and it is most desirable that public opinion assist the committees on banking and currency in securing early and favorable consideration of these amendments, which will enable us promptly to complete our financial mobilization.

GOVERNMENT AND BUSINESS

When many months ago I accepted your flattering invitation and selected "Government and Business" as the topic for my address, I did not anticipate that between then and now conditions would take so serious a turn that the relation of Government and Business in times of peace would hardly be of interest to my audience. But just because at this present juncture we see so plainly to how great an extent a country's fate depends upon its railroads, its shipping, its industries, and its finances, and just because we perceive so clearly how essential it is to secure consistent development and preparation in times of peace, it may be worth while to stop and analyze the gradual growth in importance of the interrelation of Government and Business. We may well ask ourselves: "Has government activity in business—generally called regulation—come to stay?" "Is its future scope going to increase or decrease?"

"Can modern business succeed without it?" "What is the attitude of business toward government and government toward business, and what should it be?" These are large questions which it would be interesting to discuss in the light of the past, present and future, but we can not do more than dwell to-night upon the most essential phases of the problem.

Some of the chief economic changes brought about in Europe during the past century have been: The transformation of nations from political entities into political and economic units; the evolution from mainly agrarian into industrial States; from decentralized, self-contained, and self-supporting individual activity, to strictly specialized vocation. This development has brought about wholesale production on the part of the individual and community, depending upon broad national and international markets both for the sale of excess products and for the purchase of many articles, of necessity and luxury. It has resulted in making every country dependent upon the goods of others.

When Napoleon I overran Europe, a little over one hundred years ago, England was the only industrial or manufacturing country. Germany was then a multitude of small, separate, agrarian states, a country of "poets and thinkers." When Napoleon closed the continent against England he cut off the latter's trade in such articles as cotton and woolen goods, steel, coal and glass, just as Germany has been deprived today of her foreign trade. But he could never have thought that, in so doing, he might be subjecting to famine a large continent which at that time was essentially agrarian and entirely self-supporting with respect to foodstuffs.

Prussia's defeat at the hands of Napoleon brought forth in that country the theory of "a people in arms." Since then, universal service has gradually been adopted by all the leading nations on the European continent, and at the same time most of them have become, to a greater or less degree, industrial countries. These two evolutions have been most important factors in the making of modern history.

WHAT INDUSTRIAL EXPANSION MEANS

Industrial development enables a nation to sustain within its boundaries a larger population than it can support by its own agricultural products, provided it can trade with countries that have a surplus of such foodstuffs. Larger population and taxing power means, in turn, the possibility of creating greater armies. But industrial countries are vulnerable if they can be cut off from other nations which supply them with raw materials essential for their daily life.

Here we have in a nutshell the European problem, as it lay at the root of the present world catastrophe, and we see the importance of the part played by business in this connection. Given the wicked division of Europe into two armed camps, of fairly equal power, it is obvious that each side must have watched with the greatest concern any change in any of these three important items: population, wealth and ocean control. Wealth is all the more important because the efficiency of modern armies and navies is dependent upon the most modern and ample equipment, a dependence which in turn resolves into a question of financial endurance.

Modern warfare has since developed the fact that defeat or victory depend upon the degree of speed and efficiency with which unheard-of quantities of ammunition and instruments of war can be supplied. And a country's ability quickly to organize and mobilize its industries has become a most essential factor in the struggle of the nations.

GOVERNMENT'S INTEREST IN BUSINESS

This explains why European governments, in questions of commerce and production, have long ceased to be simply regulators of business, and have become active promoters of business, and at times have even become partners in it, or themselves producers.

Not on account of the welfare of the individuals concerned, but on account of the national importance of these subjects, governments are vitally interested in proper tariffs and commercial treaties. Railroad-ing and shipping are likewise objects of the care of government—not merely because of their strategic importance, but because of the bearing that efficient transportation has upon a country's development and its ability to compete with other nations.

In railroading and shipping we find in the world today all kinds of government influence, from state subventions and control of tariffs, to joint partnership between private capital and government, and complete government ownership and operation.

In a similar manner, we see governments actively promoting agriculture and new industries, we see them organizing their industries into aggressive syndicates (and cartels), and we see a growing tendency

on the part of almost all countries to control and develop their own natural resources. At present we see in Europe governments operating factories and regulating almost every phase of demand and supply to a degree never before known. We have seen some governments at work to develop new markets by acquiring and operating new colonies.

We have seen in Europe during the last twenty years a growth of control by governments of the national power to save and invest in foreign countries. Foreign loans were directed by governments to points where they were to produce business for the lending nation, or where they were to assist politically allied countries, or where—through financial aid rendered—other countries were to be drawn into closer commercial and political relations. Loans granted to China, Russia, Turkey and the Balkan States, are illustrations of such a policy.

We all fervently hope that the end of the war will bring about conditions enabling all powers to reduce armaments, thus lessening the urgent necessity for governments to secure increased revenues for the sake of maintaining large armies and navies. On the other hand, the debts of the leading powers of Europe have increased at such an unparalleled rate that what seemed an unbearable military burden in the past will appear small as compared with the financial burden of the future.

If we take the average for the three years preceding the war, we find that England, France and Germany together spent annually for their armies and navies about \$1,000,000,000. Their combined debt service for 1914 amounted to about \$430,000,000. Their annual interest charge, without amortization,

on the basis of their present funded indebtedness, amounts to about \$2,180,000,000 per annum, or more than twice the amount formerly spent for armies and navies.

INCREASED GOVERNMENT INTEREST

The consequence will be that the future business activities of governments, in scope and intensity, will not be decreased, but will be increased. It will have to be their concern to rebuild their country's trade, to bring it back into conformity with the normal requirements of nations at peace, to secure larger revenue from a weakened people, to reduce to a minimum imports for the purpose of unproductive consumption, and to increase to the maximum the exporting power of the nation. Every country in the world has learned during the last three years the necessity of developing its own resources and of becoming less dependent upon other countries for its normal requirements. There will be a tendency, I believe, on the part of most of the leading nations, even after the establishment of peace, to keep their trade balances under government control by restricting importations, particularly of luxuries, by regulating home consumption and by bringing about the lowest possible cost of production on the broadest possible basis of organized coöperation. I have no doubt that government monopolies will be established for the production of many important articles. Exchange of goods between countries, once the shortages of raw materials and finished products have been met, will, to my mind, be decreased in volume, rather than increased, as compared with pre-war

times. And wherever purchasing power exists there will be the keenest kind of organized competition to secure the contracts for the goods required.

I have outlined these conditions at such length in order to ask the question: "In the face of the ultra-organization to be expected of other countries, can we afford to believe that when peace is restored we can meet this competition, or hold our own, unless we likewise systematize or organize our individual efforts?"

Furthermore, if in Europe it is necessary to have governments take an active part in organizing industries and banking, may we assume that it can be done without government regulation in a country which by law and sentiment much more than Europe is opposed to extensive combinations in industries and banking?

REGULATION IN THE UNITED STATES

We are all in accord, I believe, in thinking that, if at all possible, the operation of industries by party governments in the United States should be avoided. Where regulation is required and where regulation borders on the field of operation, it is best exercised through non-partisan government bodies. Leaving aside the councils and commissions organized for the purpose of dealing with emergency situations, we have bodies of that kind in the Interstate Commerce Commission, the Federal Reserve Board, the Federal Trade Commission, the United States Shipping Board, and the Tariff Board. The task of government regulation is as complex as it is ungrateful. It is largely a judicial function. Those charged with

it must hear the producer and the consumer, the shipper and the carrier, the borrower and the lender, and find a course that is fair to all, at the same time taking into consideration the larger question of the interests of the entire country in its national and international aspects. In addition, the problem of the producer and the shipper must be dealt with from the two-fold point of view of capital and of labor.

Foreign governments which own and operate coal mines, and thereby regulate the price of fuel, are interested in securing large revenue resulting from a combination of high prices for coal and low cost of production. At the same time, however, they have to consider the millions of individual consumers, the manufacturer, who must be able to compete in the world market, and finally the miner, who is entitled to reasonable wages. Efficient government regulation must conscientiously weigh all these aspects with fairness towards all, with malice towards none. It can not please all sides; it probably will invariably displease some party involved in the question, or even all. But the test of its work does not lie in praise or blame. There is only one standard to be applied, and that is: "Has its work been fair, and, first of all, has it been constructive?"

THE ATTITUDE OF BUSINESS

When by reduction of rates and improvement of service, excessive dividends on watered railroad stock are cut, no harm is done; provided the country at large profits from such action. If, however, by going to an extreme in this direction the corporation's credit is impaired, and its ability to grow and expand

is thereby destroyed, regulation proves a failure. The carrier, by exacting extortionate rates, may hurt its own interests because it is bound to weaken or even destroy the shipper, or drive him away to other lines. Conversely, the shipper, by securing excessively low rates, may destroy the railroad's ability to serve him well, or to serve him at all. But these two conflicting interests, themselves often engaged in a life and death struggle with their own competitors, can not take any but a strictly selfish view, and there must be a power to intervene between them, protecting them from each other, and safeguarding the public interest. Without governmental bodies of this nature, which take a judicial and at the same time constructive point of view, the only remaining solution would be government ownership and operation.

All this is so obvious that I feel like apologizing for taking your time in stating it: but if it is obvious that these bodies perform functions of the very highest importance in regulating transportation and finance, in developing equitable tariffs, and in seeking to develop ways and means by which our industries may organize for joint and effective competition in foreign fields, why, then, if this is so obvious, does business look upon the work of these bodies, generally with apathy, and frequently with ill-disguised animosity?

I believe there are four main reasons:

First: We are a highly individualistic people; we cherish our personal liberty and naturally resent any kind of compulsory regulation as bothersome and unnecessary interference;

Second: There is a strong belief amongst American business men that they "know better," and that any Government requirement or regulation is bound to be theoretical rather than practical; extreme and destructive rather than helpful;

Third: It is natural that those should be dissatisfied who in the past had a larger piece of pie than was due them, which had consequently to be cut by government interference;

And, finally, it is equally natural that those should be dissatisfied whose slice, small in the past, has been increased by the government, but who now feel resentment that they can not have the whole pie to themselves.

We need not lose much time over the last two classes, but we may devote some thought to the first and second.

DEMOCRACY AND PERSONAL LIBERTY

True democracy can not resent self-imposed regulation as an infringement on personal liberty; it would be that only if it were imposed by others. We willingly accept police regulations as measures adopted by ourselves for our own personal safety. Why, then, should we revolt against regulation that deals with the much larger question of national protection?

Putting the question in this way is to answer it: "Because, in our daily life, we value our personal interest higher than that of the country."

These last months have brought us face to face with problems of extreme gravity. Their redeeming feature has been that they have awakened in

us the willingness to consider our country first, and to place our personal comfort and interest where they belong—in the second row. But our lesson would be only half learned if we did not begin to apply it in peace as well as in times of stress or war.

As to the second charge that these boards are largely filled by men stronger in theory than in practice, I believe that in thinking of them many of you have in mind Bernard Shaw's sarcastic remark, "He who can, does. He who can not, teaches."

But, gentlemen, when you consider the tremendous scope of influence the Government is bound to exercise in the future business life and growth of nations, when you bear in mind that with the rapid changes of heads of departments and in our legislative bodies, these non-partisan boards and commissions may become the strongest elements of economic stability and expert knowledge, you will agree that these government boards will not be positions for "teachers," but, indeed, for real "doers."

EXPERT TALENT NECESSARY

Do not overlook, gentlemen, that these boards will have to act as buffers and balance wheels, not only between the various business interests involved, but also between emotional and changing factional government influence on the one side and the needs of quiet and steady economic evolution on the other. Capital and labor, farmer and manufacturer, shipper and carrier, all have their spokesmen in Congress, often representing as one-sided a class view as the classes themselves. To understand all parties to the controversy, to combine the business man's point

of view, as well as the farmer's, with the more detached conception of a non-partisan, expert government body; to arrive at the judicial and national point of view; to discover the proper middle course conducive to the best interests of the entire country; to prevent harmful over-regulation in either direction; to overcome mutual distrust, prejudice and suspicion of all parties concerned, is a task deserving of the best talents and the strongest characters of the nation.

The scope of government regulation in business matters all over the world will not decrease but rather increase in the next 25 years. Modern states can no longer succeed without it. For us it is no more the question of whether we shall or shall not have government regulation, or promotion, in certain branches of our business life. The problem is to find its most efficacious form. Unless we do, we shall fail to hold our own. For us, the question is only shall it be a non-partisan, expert regulation or one changing with changes in party government.

That democracy is the ideal form of government, I do not doubt. But Europe's recent history has borne out the experiences of 2,000 years ago: that, in the hours of greatest need, democracy is often not the most efficient form of government. That is why in the old Republic of Rome, in times of war, recourse was invariably taken to temporary dictatorships, and that is why, for certain branches of government, we now see this form of administration again adopted in Europe. Democracy is government by the people. It is the most self-respecting form of government. But, being the expression of the ever changing will of the masses, it is lacking in stability of policy, and

continuity in office of trained men. It furthermore abhors autocratic power vested in single individuals. It believes in checking one power by another, and each man by other men, and, therefore, vests authority in groups rather than in individuals. These are conditions which can not be avoided. But whether democracy will prove itself capable, however, of dealing effectively, fairly and promptly with the intricate economic problems of the modern state will largely depend upon our ability to develop to their proper degree permanent and capable expert boards and commissions, assuring that measure of stability and reasonable promptness in action without which healthy progress can not be made.

But, gentlemen, in order to achieve that result, such boards must find an attitude of sympathy and support on the part of the country.

"SUPREME COURTS" OF BUSINESS

Business men must feel toward these boards as lawyers do toward the Supreme Court. Just as any lawyer might be expected to give up a highly remunerative practice in order to accept a call to the Supreme Bench, so the Government must feel that it is entitled to ask the best business minds to serve on a supreme bench, if you please, of transportation, banking or trade. It is true that being a member of these boards entails sacrifices of a material and, what is more, of a personal nature; but, if in England, France and Germany the flower of the nation always stands ready to serve its government, why should our country find its citizens less ready to follow its call? Men are willing to serve their country if they

feel that the sacrifice involved is commensurate with the result to be achieved and if they can count upon the confidence, the sympathy and the support of the people. How much have business, railroad and banking done in this respect to enhance the attractiveness of these government positions? Have they tried to do everything in their power to help in the public work and to promote a sympathetic understanding? Or have many done the best they could to belittle it; to lament unnecessary government interference and to discourage those charged with the duty of carrying into effect the people's will?

Personally, I have no reason to complain, but speaking by and large about the general attitude of the public, I am certain that you will bear me out when I say that it has not been what it should be for the best interests of the country. It ought to be clear beyond a doubt—particularly for you business men—that the more capable the men serving on these boards, the better for all concerned; that the higher the estimation the country places on the work of these boards, the more the country realizes the importance of having the ablest men serve it, the greater will be the chance of securing and retaining for these boards the services of leaders in their respective callings; that the more capable the various interests show themselves of taking a large and coöperative point of view, the greater will be the justification for the Government to fill these boards in a larger measure from their own ranks instead of seeking them elsewhere. Men who join such commissions or boards do not want empty compliments or praise. There is but one possible compensation to which they aspire, and that

is success in their efforts. If the public is interested in their efforts; if it trusts them and wishes them to prevail, their battle is half won. Intelligent understanding and a sympathetic and coöperative attitude is all that they require.

May I tax your patience by illustrating these conditions in speaking to you of some problems of the Federal Reserve Board?

APATHETIC BUSINESS MEN

I have mentioned to you the important amendments we are trying to secure; amendments in the adoption of which every American citizen is interested and nobody more than the business men. For almost three years the Board has been striving towards the perfection of this greater financial mobilization. How many business men have followed the work of the Board; how many have raised a hand in its support? How many realize that what really caused the fatal delay in acting upon this legislation was, as we have reasons to believe, a side issue bearing no relation to the proposed amendments? It was the question of whether there should be added to the amendments the right to make certain exchange charges, abolished by the Federal Reserve Act, but which a large number of small country banks want to see restored. Time does not permit me to go into the merits of the case, even though it offers a characteristic illustration of problems requiring governmental regulation.

Whether or not these charges should be permitted or refused is a matter for Congress to decide, but it does not seem reasonable that vital legislation should

be withheld or delayed at this time on account of an issue which ought to be settled independently upon its own merits.

I have mentioned this incident because I have been wondering at the apathy of business men and, in a similar manner, it has been a source of surprise to me that, apparently, they have not yet fully realized that the entrance of the State banks and trust companies into the Federal Reserve System is their concern.

STATE BANKING INSTITUTIONS

The exchange problem would not offer so much difficulty if it were not that the member banks feel it a hardship that they should be asked to provide the entire system of protection for the country while the State institutions not only do not contribute their share but, in addition, are free to make exchange charges and to conduct their business as they please. The State banks and trust companies, not counting the savings banks, have deposits of about 9½ billion dollars, and outside of the System carry cash in their vaults amounting to \$600,000,000. A large portion of this cash ought to be added to the general reserve power of our country.

If some of the directors or presidents of State banks or trust companies were asked by their neighbors to join in paying for a watchman to patrol the neighborhood of their private residences, would any of them say: "Why should I? As long as you, Mr. Neighbor, pay the watchman for your house, I am protected anyhow without my paying for it."

I know that a great many of the leading State bankers of the country are very sensitive as to this

situation. They do not feel happy about it and have made up their minds that it is the proper thing for them to come in. They would much rather be in the position of paying their share of the watchman's salary. They furthermore know that every depositor in a member bank contributes his share to the stronger protection and to the greater credit power of the country, and that their depositors will awaken to a realization of the importance of this condition. They know that in case of a real strain savings banks, trust companies and State banks indirectly will have to depend upon the strength of the Federal Reserve System others maintain for them. Some of them, doing a large acceptance business, profit every day from the acceptance market created by the Federal Reserve System, a market that has enabled the American dollar acceptance to take its place along with the Sterling, Franc and Mark bills in all parts of the world. But they know that entering the system means certain sacrifices in earnings, and, maybe, the loss of some interlocking directors. Yet, if that is their contribution to the rise of America's banking system and to the safety and better growth of our economic edifice they ought to be willing to pay that price. They know it and they will do it; but the trust company president thinks of his competitor—"will he come in? If he will, I will."

While still a banker in New York, I once tried to get into a subway train during the rush hours. I forced my way into a crowded car, but with another man was caught between the automatic doors which would not close behind us. My fellow sufferer began

to yell at the top of his lungs: "Isn't there anybody to push us in?" Well, a guard came and pushed us in. It looks to me as if there were enough in the present situation to push the State banks and trust companies in. This is a time when beyond a doubt public interest must prevail over individual advantage.

THE BURDEN ON 7500 BANKS

Early training in banking in Europe has inculcated in me an aversion to banking by regulation when, by intelligent voluntary action of the banks, the same result can be achieved. But in Washington I am constantly met with the view that without compulsion it is impossible in the United States to make any headway. I have been unwilling to surrender to that point of view. I liked to think of the Federal Reserve system as of a club which the strongest and best banks consider it an honor to join, and not as of a "club" to swing over the heads of the banks in order to coerce them into sound banking coöperation. It is a most satisfactory fact that in almost every important city some leading State institutions have come in voluntarily, and I hope that on that same plan the majority of the strong State institutions will soon follow.

The stipulations prescribed by the Board for State bank and trust company membership are most liberal and, as a matter of fact, more favorable than those governing national banks. The Board's policy has been not to restrict member State institutions in the exercise of legitimate banking powers, granted to them by their respective states, but rather to try to enlarge the powers of national banks where they find

themselves at an unnecessary disadvantage against their non-member competitors.

The present condition of having 7,500 banks carry the burden for 27,000 is unfair both to the member banks and the best interests of the country. The strong non-member banks who, knowing the facts, do not remove this inequality will, in time, force the Government to do its duty in adjusting the matter. But if Congress finally should be forced to swing "the big stick," they will be the ones to complain most loudly about the "nuisance and unfairness" of governmental compulsory regulation.

BANKING REGULATION NECESSARY

Under a highly developed system of branch banking, there are in England 259 joint stock banks, in Canada 21, in Germany about 350. We have about 30,000. It is obvious, therefore, that leadership and direction by Government agencies is even more necessary with us than in Europe. We have adopted from Europe the principle of coöperative protection in banking and we ought to accept from them also the loyal spirit in which they coöperate with their leaders. The people, the banks and the press are mindful of the fact that farmer and manufacturer, borrower and lender, of necessity can not take an unselfish point of view; that no matter how profoundly they believe they have given due regard to the country's general interests, most of them are so busy with their own affairs that they have not even had the time to consider the problem from any but their own angle. The central bank's actions must, of course, bear careful analysis and healthy public discussion. But the

first impulse abroad is to follow the men they have placed in charge, to stand by them and to take it for granted that the obvious is not likely to have escaped their attention, and that the only object in view is to be fair to all and to do the best for their country.

More than in Europe it is necessary with us that our banks shall not consider the Federal Reserve System as an unwelcome and bothersome leash from which some day they still hope to escape. The Federal Reserve Act provides for a joint administration by Government on the one hand and banking and business on the other. The more the banking and business communities realize that Government regulation in banking is indispensable and has come to stay, the more they substitute for a critical attitude a spirit of active coöperation, the more they begin to recognize their duties and privileges as half-partners in the administration, the more they make it their business to perfect the machinery which has been established for their own protection, helping instead of hindering those who try to make it a success, the happier and the safer will they be and the better it will be for all. Let them be clear about it that our people will never permit this Federal Reserve System, or any other similar system, to be run by the banks alone without the check and regulation of the Government, just as little as the country would permit the Government to run such a system without the counter-check of the coöperation of the banking and business communities. You may say that this marriage between Government and business is not wedlock based upon love at first sight. But no matter whether it was love, reason, or necessity that brought it about, there can be no divorce. And inas-

much as they must live together, the only wise course is to pull together and let the common interest act as the strong bond uniting them.

And, now, coming back from these illustrations taken from my own field of activity, permit me in closing to recapitulate the thoughts that I have tried to convey.

CONCLUSION

The modern state is as much an economic as it is a political unit. There are millions of individual enterprises apparently self-centered and independent, but, as a matter of fact, all dependent upon each other. There is not one in the conduct of which, directly or indirectly, the State is not interested. There is not one which, by exaggerating the single and selfish point of view, might not do harm to others and affect the well being of the whole. Whenever the fair middle course, essential for the greatest prosperity and comfort of all, can not be established and adhered to by common understanding between contending parties, Government has to step in as a regulating factor. If this regulation is to bring about the best results, it must not be exclusively preventive of abuses or destructive of old business practices, but it must be, at the same time, constructive. Government must not regulate only. It must also promote.

In the state of the future, particularly in Europe after the war, the most efficient Government promotion of industries in many lines will be held to exist in actual government ownership and operation. More than ever before will states become solid industrial and financial unions effectively organized

for world competition driven by the necessity of perfecting a system of the greatest efficiency, economy and thrift in order to be able to meet the incredible burdens created by the war.

Such is the future of the world in which we shall have to maintain our own position, and it requires, on our part, thorough organization and steady leadership. Under our democratic system this can not be furnished by changing party governments, but can only be provided by fairly permanent, non-partisan and expert bodies. These bodies must combine the judicial point of view with that of active and constructive business minds. They must be able to act as expert advisers alike to Congress and the industries concerned. They must break down suspicion and prejudice of Government against business and of business against Government. They must stand for the interest of all against the exaction or aggression of any single individual or group, be it called capital or labor, carrier or shipper, lender or borrower, Republican or Democrat.

Our ability to handle effectually the great economic problems of the future will depend largely upon developing boards and commissions of sufficient expert knowledge and independence of character. This will be possible only if both Government and the people fully appreciate the importance of such bodies, so that the country may find its ablest sons willing to render public service worthy of the personal sacrifices it entails.

I believe that the dark clouds of sorrow and suffering which for three long years have shrouded the world will before long show us their "silver lining." We shall see it in the greater political liberty and

safety coming to millions in Europe. We shall perceive it in the chastening that will come to some and the awakening in others to the deeper realization of the things most essential in life. To us it will bring, I believe, a keener appreciation of the individual's duty towards his country, not alone to his country in stress, but also to his country in its peaceful endeavors. It will develop a better understanding of our common problems, and with a proper estimation of their importance there will come a greater willingness on the part of all to serve the country either by taking a more active share in its government or by readier and more intelligent subordination of our own work or comfort to the larger public interest.

This broader conception of genuine citizenship will perceive in government regulation not unwelcome and arbitrary restraint to be resented by liberty-loving men, but self-imposed rules established for mutual advantage and protection.

Aristotle, in defining the essential characteristics of liberty, said: "It is to govern and in turn to be governed," and this thought has lost nothing of its force even though 2,000 years have passed since it was expressed.

Liberty without government is anarchy.

Government without coöperation of the governed is autocracy.

To govern and in turn to be governed is the only form of true liberty.

In this conception there is nobody governing and nobody governed. We all govern and serve alike and together. We all serve one master; the only master that no liberty-loving man need be ashamed to serve—we serve our country.

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